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THE ECONOMIC AND
FINANCIAL ASPECTS
OF
PAKISTAN



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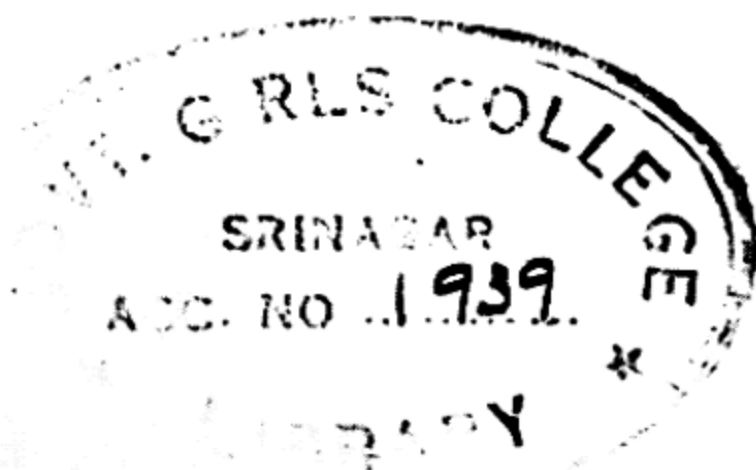
PREFACE

This memorandum was originally submitted by us to the Sapru Committee, of which we were members, for the purpose of clarifying the economic issues involved in the problem of Pakistan, in so far as the available data permitted. In the public controversies on Pakistan, it has been generally assumed that the economic disunity which it will entail will weaken the resources of the country and impair its capacity for defence. There has, however, been little attempt either to verify the premises or to analyse the implications of this proposition. We have based our study on the somewhat fragmentary and disconnected materials which are to be found in official and other publications. We do not claim that the resulting picture is sufficiently complete for a final judgment. Nevertheless, we hope it may provide some basis for a dispassionate examination of a subject so complex and involving such grave consequences to the country.

H. P. Mody
John Matthai

BOMBAY HOUSE,
BOMBAY.

September 12, 1945.



Introductory

We propose in this memorandum to examine some of the more important economic and financial problems which will arise if India is divided into separate States as suggested by the advocates of Pakistan. We should make it clear that our purpose is not to judge the issue of separation but only to indicate what the economic consequences of separation are likely to be if it is decided upon for political reasons. The data available for the purpose are of a somewhat meagre kind. As will be seen later in this memorandum, we have had at several stages of the examination to fill the gaps in the evidence available by assumptions and estimates for which no final validity can be claimed. Nevertheless, we venture to think that the general conclusions suggested by our examination present on the whole a fair appraisal of the economic and financial implications of the problem of Pakistan. Our views which are set out in detail in the paragraphs that follow, may be summed up in two propositions—

1. Judged solely by the test of ability to maintain existing standards of living and to meet budgetary requirements on a pre-war basis but excluding provision for defence, separation would appear to be workable on economic grounds.

2. If, however, provision is to be made for future economic development on a scale sufficient to raise the general standard of living to a reasonable level and for measures of defence which may be considered adequate under modern conditions, any scheme of political separation which may be contemplated should as a necessary prerequisite, provide for means of effective and continuous co-operation between the separate states in matters affecting the safety of the country and its economic stability and development. If such co-operation did not exist, the position of both Pakistan and Hindustan might be seriously jeopardized.

2. Demarcation of Pakistan

There are three methods which have been suggested for demarcating the boundaries of Pakistan. One is that all existing

provinces with Muslim majorities should be segregated to constitute Pakistan. On this basis, it will consist of two zones, one to the East and the other to the West of India. The Eastern zone would cover the provinces of Assam and Bengal and the Western zone would consist of Sind, Baluchistan, North-West Frontier and the Punjab. Whether these two zones are to constitute two independent sovereign states or two units of a single state of Pakistan is a matter which as far as we are aware has not yet been clarified. The second suggestion is that instead of segregating entire provinces, only contiguous districts where the majority of the population is Muslim, should be separated from India for forming the new state. A number of districts with a predominantly non-Muslim population which would be included in the two zones of Pakistan if it was formed province-wise would, according to this method, remain attached to the rest of India.* Naturally the territory and population of Pakistan constituted on a district basis would be much smaller than if it was formed province-wise.

3. Demarcation of Pakistan According to Economic Regions

A third method of determining the area of Pakistan is that which Professor Coupland suggests in *The Constitutional Problem in India*. He recommends that the political division of India should coincide with the boundaries of natural economic regions so that for economic development each political division would be a homogeneous unit. The economic regions which he has in view cover the river basins of the Indus and the Ganges, the Deltaic areas and the Deccan Plateau, including the coastal territory. The areas to be included in the corresponding political divisions are shown below :

Indus Valley—

North-West Frontier Province, British Baluchistan,
Punjab, Sind and Ajmer-Merwara.

* The following districts with non-Muslim majorities would be excluded from Pakistan :

Assam—All districts except Sylhet.

Bengal—Burdwan, Birbhum, Bankura, Midnapur, Hooghly, 24-Parganas, Howrah, Calcutta, Khulna, Darjeeling and Jalpaiguri.

Punjab—Hissar, Rohtak, Gurgaon, Karnal, Ambala, Simla, Jullundur, Ludhiana, Ferozepur, Kangra, Hoshiarpur and Amritsar.

Ganges Valley—

Bihar, Orissa and United Provinces.

Delta—

Assam and Bengal.

Deccan—

Bombay, Central Provinces and Berar, Coorg and Madras.

It will be seen that the political divisions which under this scheme correspond to the Indus Valley and the Delta regions are the areas which barring Ajmer-Merwara in the Western zone, will be covered by Pakistan if it is formed province-wise. It would, however be a mistake to infer from this that the principle of economic regionalism supports the demarcation of Pakistan on a provincial basis. In the first place, whether economic regionalism alone should be considered a determining factor for the formation of political units is a doubtful proposition. Especially in India, it will cut across a number of sociological factors like language, history, culture, etc. which are considered essential for maintaining the solidarity of a political unit. Secondly, the separation of the Delta area from the river basins, which Professor Coupland suggests, is not in keeping with sound principles of economic regionalism. Unitary control over a river system, designed to promote a planned economic development, must cover the basin as well as the delta. Thirdly, the division of India into four equally balanced political units, apart from the fact that it is essentially unscientific, is so wholly artificial as to appear to be an after-thought rather than a genuine basis of political demarcation. We do not think that this method of division deserves serious consideration.

4. Enquiry Confined to Pakistan formed Province-wise and District-wise

In examining the economic position of Pakistan we, therefore, proceed on the assumption that the two zones which it comprises, regarded as independent states or as units of a single state, will be formed either on the basis of existing provincial boundaries or on the basis of contiguous districts. In so far as the area included in Pakistan on the principle of regionalism coincides with the area included on a provincial basis the economic position of Pakistan as implied in Professor Coupland's suggestion will also be clear from the discussion that follows.

5. Limitations of Available Statistical Data

It is necessary to state that for want of data we have to confine ourselves to the British Indian territory which will be covered by Pakistan under the two alternative methods. In assessing the economic position of the new state or states, which we are postulating, we are seriously handicapped by the absence of statistical information as regards many of the matters under review. It is common knowledge that statistical information bearing on India's economic resources and development is extremely scanty. A good deal of the information that is available relates to India as a whole and is not classified according to provinces, while the information shown separately for districts is still more meagre. Under these circumstances, we are compelled to confine this inquiry to certain limited topics and even in regard to these to aim only at broad conclusions based on rough and often arbitrary estimates. The data used in most cases relate to the year 1939-40.

6. Topics of Enquiry

We propose to examine the economic position of Pakistan, on such data as are available, from three points of view—(i) the budgetary position, i.e., as regards public revenue and expenditure ; (ii) the standard of living, i.e., as regards economic conditions generally ; and (iii) defence requirements, i.e., as regards external security. We shall examine these matters as far as possible on a provincial as well as district basis and consider the position in each case according as the Eastern and Western zones are regarded as independent states or as units of a single state.

7. Area and Population of Pakistan

The area and population of Pakistan, formed province-wise and also district-wise, distributed according to zones are shown below :

	Area (million acres)		Population (millions)	
	Province-wise	District-wise	Province-wise	District-wise
Eastern zone	85.9	36.2	70.5	44.1
Western zone	98.9	77.0	36.4	24.9
Total	184.8	113.2	106.9	69.0

Both province-wise and district-wise the Eastern zone will be more densely populated than the Western zone. Population per 100 acres will be 82 and 37 in the Eastern and Western zones, respectively, if the division is province-wise. On the alternative basis, it will be 122 and 32. The combined area of the two zones of Pakistan, province-wise and district-wise, will constitute 36 and 22 per cent., respectively, of the area of British India. The proportion of population will be almost the same, viz., 36 and 23 per cent.

8. Local Finance on the Basis of Existing Boundaries

An examination of the budgetary position must include the finance of both the provinces or local units comprising the two zones of Pakistan and the new central government which would come into being. So far as local finance is concerned, the separation of Pakistan would apparently not make any substantial difference. In the year 1939-40, as will be seen from the following table, all the provinces except the N.-W.F. were able to balance their budgets:

(Rs. lakhs)

	Revenue	Expenditure
Assam	2,93	2,92
Bengal	14,32	13,71
N.-W. Frontier	1,83	1,87
Punjab	12,11	11,96
Sind	4,29	4,05

The revenues of Assam, N.-W. Frontier and Sind are inclusive of the subventions which, since the inauguration of provincial autonomy in 1937, have been paid by the Central Government. In 1939-40, the three provinces received as subventions from the centre Rs. 30 lakhs, Rs. 100 lakhs and Rs. 105 lakhs, respectively. Since then, by mutual arrangement Sind has set off its claim for an annual subvention against the settlement of its debt to the Central Government on account of the Sukkur Barrage. Subventions will, however, continue to be necessary in the case of Assam and N.-W. Frontier. In the latter, on the basis of the 1939-40 figures, they contributed more than 50 per cent. of the entire revenue of the province. If these subventions are paid by the Central Government of Pakistan (an adjustment on this account

is made in the budget of the Central Government of Pakistan—see para 11) and the financial requirements of the provinces do not exceed the pre-war level, it may be assumed that the provincial budgetary position in the Pakistan areas would not be materially different from that disclosed in the foregoing table. It is assumed that the machinery of administration will remain intact.

9. Local Finance of Pakistan if formed District-wise

The demarcation of Pakistan district-wise will affect Assam, Bengal and the Punjab. There is, however, no means of determining the revenue and expenditure of these provinces if the non-Muslim districts are excluded from them. The extent to which revenue and expenditure are likely to be reduced can only be estimated on a rough *pro rata* basis according to population. The estimate on the basis of the 1939-40 budgets is given below:

(Rs. lakhs)

	Revenue	Expenditure
Assam	88	88
Bengal	9,74	9,32
Punjab	7,21	7,08

As compared with the previous table, the figures show a reduction of 19 lacs and 2 lacs in the surpluses of Bengal and the Punjab, respectively.

10. Sources of Provincial Revenue

The sources of provincial revenue consist chiefly of land revenue, provincial excise, stamps, share of income-tax, export duty on jute in Bengal and irrigation revenue in the Punjab and Sind. The *per capita* yield of net revenue from principal sources was Rs. 2.7 in the Punjab, Rs. 1.8 in Assam and Bengal and Rs. 1.7 in the N.-W Frontier. In Sind the figure was very small in consequence of a big loss on irrigation during the year. It is necessary to bear in mind that the administrative standards which prevail in the Pakistan provinces at present are not uniform and in certain provinces the standard of administration is considered to be particularly low. It will be necessary to improve it in the future. Secondly, in the post-war period, there is bound to be a large demand for social services especially in the

sphere of education and health which would make it necessary for the provinces to budget for a larger expenditure than at present. It may, however, be expected that additional sources of revenue like agricultural income-tax, sales tax, death duties, etc., will go a long way towards meeting the extra expenditure involved.

11. Central Budget of Pakistan

More important than the budgetary position of the local units included in Pakistan is that of its central government. The revenue which will be available to the central government and the expenditure it will have to incur, excluding the expenditure on defence, which will be considered separately, cannot be assessed with accuracy. The Finance and Revenue Accounts show the revenues collected and expenditure incurred in different provinces on behalf of the Government of India. But in the matter of revenue it will not be correct to assume that the amounts collected belong to the province in which they are collected, although in respect of expenditure the assumption will be approximately correct. Following, however, the method adopted by Professor Coupland with certain modifications and assuming that Pakistan will be constituted without disturbing the existing provincial boundaries, the share of the Eastern and Western zones of Pakistan in the revenue and expenditure of the central government for 1939-40 is shown below:

Net Revenue

(Rs. lakhs)

	Eastern zone	Western zone
Customs	12,36.3	5,82.9
Central excise	1,21.1	78.0
Corporation tax	73.5	17.1
Other income taxes	2,97.5	1,50.4
Salt	2,07.6	1,19.1
Posts, telegraphs, currency and mint	36.0	21.3
Railways, net loss	—1,40.8	—1,11.8
Miscellaneous	1.6	19.8
	18,32.8	8,76.8

Net Expenditure

(Rs. lakhs)

	Eastern zone	Western zone
Civil administration	2,03.1	1,45.8
Debt services	4,41.7	2,16.4
Superannuation allowances	65.5	40.7
Grants in aid to provinces*	30.0	2,05.0
Other items	47.6	30.4
	7,87.9	6,38.3

* This item covers the subventions to provinces referred to in para 8.

According to these figures the central revenue and expenditure of Pakistan, formed province-wise, excluding defence expenditure, would show a surplus of Rs. 10,45 lakhs in the Eastern zone and Rs. 2,39 lakhs in the Western zone. The surplus of the Western zone will increase to Rs. 3,44 lakhs in view of the stoppage of the subvention to Sind included under 'Grants in aid to provinces'. The surplus of revenue in the Eastern zone which is considerable is due mainly to customs which yielded Rs. 12.4 crores or more than 66 per cent. of the entire central revenue of the zone in 1939-40. This large amount of customs revenue is available to the Eastern zone because of Calcutta through which a substantial volume of foreign trade is carried on at present. It is possible that when Bengal and Assam are separated from the rest of India and constituted into an independent state, Calcutta, which at present serves as a convenient port of import and export for the U.P., Bihar and other areas, will lose a portion of its foreign trade and to that extent the revenue from customs may suffer. As against this it is reasonable to assume that Pakistan will levy revenue duties on imports crossing its land frontier from the side of India. This additional source of revenue may be expected more or less to counter-balance the loss from sea customs.

12. Central Budget of Pakistan formed District-wise

The revenue position of the central government of Pakistan, if formed district-wise, would be weaker. Calcutta which has a predominantly Hindu population would no longer be a part of Pakistan which would naturally suffer heavily in respect of

customs revenue. The possibilities of developing Karachi and Chittagong cannot be ignored but it is doubtful whether they can fully compensate for the loss of Calcutta. The method adopted for estimating the revenue and expenditure of the central government of Pakistan formed on a provincial basis cannot be used for forecasting the central budget of Pakistan formed on a district basis. We have, therefore, reduced the revenue and expenditure figures given in the previous table on a *pro rata* basis, assuming that along with other revenues customs revenue also will be available in proportion to population, irrespective of the existence or otherwise of a good port. No validity can of course be claimed for this assumption but no other basis of calculation seems possible. The central revenue and expenditure of the Eastern and Western zones of Pakistan on a district basis would, on this assumption, be as follows :

Net Revenue
(Rs. lakhs)

	Eastern zone	Western zone
Customs	7,75.0	4,02.2
Central excise	75.5	53.8
Corporation tax	46.0	12.0
Other income taxes	1,86.5	1,03.7
Salt	1,30.0	82.2
Posts, telegraphs, currency and mint	22.0	14.7
Railways, net loss	—88.5	—77.2
Miscellaneous	1.0	13.6
	11,47.5	6,05.0

Net Expenditure
(Rs. lakhs)

	Eastern zone	Western zone
Civil administration	1,26.8	1,00.6
Debt services	2,76.7	1,49.5
Superannuation allowances	41.0	28.0
Grants in aid to provinces	18.8	1,41.4
Other items	30.0	21.0
	4,93.3	4,40.5

The revenue surplus of the Eastern zone, on a district basis, will be Rs. 6,54 lakhs and that of the Western zone Rs. 1,64 lakhs, which will increase to Rs. 2,37 lakhs, as the grant in aid to Sind given in 1939-40 will no longer be necessary.

13. Central Budget of Pakistan Combined

Assuming that the Eastern and Western zones of Pakistan instead of functioning as two independent sovereign states have a combined central government the budgetary position of Pakistan will be somewhat as follows :

Net Revenue (Rs. lakhs)

	Province-wise	District-wise
Customs	18,19.2	11,77.2
Central excise	1,99.1	1,29.3
Corporation tax	90.6	58.0
Other income taxes	4,47.9	2,90.2
Salt	3,26.7	2,12.2
Posts, telegraphs, currency and mint	57.3	36.7
Railways, net loss	—2,52.6	—1,65.7
Miscellaneous	21.4	14.6
	27,09.6	17,52.5

Net Expenditure (Rs. lakhs)

	Province-wise	District-wise
Civil administration	3,48.9	2,27.4
Debt services	6,58.1	4,26.2
Superannuation allowances	1,06.2	69.0
Grants in aid to provinces	2,35.0	1,60.2
Other items	78.0	51.0
	14,26.2	9,33.8

Province-wise, this shows a surplus of Rs. 12,83 lakhs which will be reduced to Rs. 8,19 lakhs if Pakistan is formed district-wise. As the expenditure under grants in aid to provinces will be reduced by the amount paid to Sind, these surpluses will increase to Rs. 13,88 lakhs and Rs. 8,91 lakhs, respectively.

14. Method of Estimating the Central Revenue and Expenditure of Pakistan

A brief explanation of the method adopted in estimating the central revenue and expenditure of Pakistan might be useful at this stage if only to emphasize the tentative nature of the figures presented above. The proper basis for the allocation of customs, which is the main source of revenue, is the share of each province in the import trade of India. But information on this point is not available. We have, therefore, taken the mean of the actual collection of revenue and the share attributable to Pakistan on the basis of consumption of imported foods as indicated by the proportion of urban population. Even on this basis there is reason to believe that the share assigned to the Eastern zone is an over-estimate. The calculation of income tax is based on the shares allocated to provinces in Sir Otto Niemeyer's scheme of distribution. The shares of the Pakistan provinces are as follows : Assam 2 per cent., Bengal 20 per cent., N.-W.F. Province 1 per cent., Punjab 8 per cent. and Sind 2 per cent. The yield of the corporation tax is worked out on the basis of a mean between the share of actual collection and the share of income tax as has been done by Professor Coupland. Central excise, salt, mint, and posts and telegraphs, are estimated roughly on the basis of population. Railway revenue has been assigned to Pakistan in proportion to the route mileage of the various railway systems in the two zones. The proportions for the different railways in terms of percentage are as follows : Assam Bengal 100, Bengal Nagpur 7.2, Eastern Bengal 100, East Indian 14, North Western-commercial 90 and strategic 100.

15. Allocation of the Existing Liabilities between Pakistan and Hindustan

The allocation of the existing liabilities between Pakistan and Hindustan which has been made for the purpose of estimating the debt services to be charged to Pakistan is a difficult problem which deserves separate examination. When liabilities have corresponding productive assets, allocation can be made on the basis of the location of the assets. Liabilities on account of railways which is the principal item of capital expenditure in India can be easily divided on this basis. The amount

of capital invested by the Government of India in railways in the Pakistan provinces amounted roughly to Rs. 240 crores in 1939-40. As this capital is productive in the sense that it covers the cost of debt services including provision for redemption, the net income which is expected under these heads is calculated after taking into account interest and redemption charges. In respect of liabilities which have no corresponding assets, however, allocation between Pakistan and Hindustan is a difficult matter. The share of Pakistan can be fixed either in proportion to its combined provincial and central revenues as compared with the revenue of India or in proportion to its receipts from customs, salt, taxes on income and central excise. When the separation of Burma gave rise to a similar problem these two methods were suggested. On the basis of the second method which is more easy to apply we find that the share of the unproductive debt which Pakistan will have to bear will be 37.1 per cent. ; 24.9 per cent. for the Eastern zone and 12.2 per cent. for the other. According to Professor Coupland, the unproductive debt of India would amount to Rs. 500 crores after the war. Including provision for repayment after 40 years the interest on this debt has been estimated at Rs. 17.74 crores. Pakistan's share in the interest payments would amount to 6.58 crores : 4.42 crores by the Eastern zone and 2.16 crores by the Western zone, which is shown under debt services in the Revenue and Expenditure table in para 11.

16. Classification of the Area of Pakistan for Agricultural Purposes

When we come to judge the standard of living, we are faced by the difficulty that we have no data regarding the national income of each of the Pakistan provinces separately. We have, therefore, to proceed on the basis of certain rough criteria like food production, industrial employment, trade, etc. An analysis of these factors shows that contrary to the common belief the position of Pakistan is better in certain respects than that of Hindustan. In the sphere of agriculture in particular, the Western zone of Pakistan is more advanced than the rest of India and the possibilities of further development appear to be not inconsiderable. The following table shows the

classification of the area of Pakistan zones for agricultural purposes in 1939-40 :

(Million acres)

	Eastern zone		Western zone	
	Prov.-wise	Dist.-wise	Prov.-wise	Dist.-wise
Total area	85.9	36.2	98.9	77.0
Forests	8.8	1.7	3.1	2.4
Not available for cultivation	14.0	6.6	26.9	20.9
Other uncultivated land excluding current fallows	25.3	4.5	25.5	23.0
Current fallows	6.2	2.8	10.8	9.5
Net area actually sown	31.6	20.6	32.6	21.2

The figures show that a large proportion of the area is classified as uncultivated. How much of this can really be brought under cultivation can be determined only after a comprehensive soil survey has been carried out. Because of the greater possibility of developing irrigation, however, especially in the Western zone of Pakistan, there appears to be some prospect of bringing under cultivation a large part of the land lying uncultivated at present.

17. Agricultural Production in Pakistan Province-wise

The value of agricultural production, excepting tea and coffee, in the whole area of Pakistan (province-wise) in the year 1937-38 was roughly Rs. 186 crores on the basis of harvest prices. The value according to groups of crops, distributed between the two zones, was as follows :

(Rs. lakhs)

	Eastern zone	Western zone	Total
Food crops	100,01	49,04	149,05
Non-food crops	23,24	14,06	37,30
Total	123,25	63,10	186,35

If we add to this the value of tea, which is the principal crop of Assam and an important crop of Bengal the total value of agricultural production would exceed 200 crores. In the matter of food supplies the Western zone of Pakistan is better off than the rest of India. Sind and the Punjab are even now surplus provinces. On the

basis of 1937-38 figures the total quantity of food grains produced in Pakistan—province-wise—was 18 million tons : 11 million in the Eastern zone and 7 million in the Western. The rest of British India produced 29 million tons in the same year. The *per capita* production works out to 377 lbs. in the entire area of Pakistan: 350 lbs. in the East and 431 lbs. in the West, while in Hindustan it is 345 lbs. in the year. It would thus appear that, if the production of food grains in Pakistan was made available to the population of the respective zones, the *per capita* consumption per day in the Western zone would be much more than a pound, which is the ration considered adequate by nutrition experts. In the Eastern zone it would be less but about the same as in the rest of India.

18. Agricultural Production in Pakistan formed District-wise

As figures of agricultural production by districts are not readily available, it is not possible to assess with the help of statistics the position of food supply in Pakistan formed district-wise. It is, however, reasonable to assume that it would not be materially different from that of Pakistan formed province-wise.

19. Consumption of Milk in Pakistan

The general conclusion regarding food supply which have been set out in the foregoing paragraphs are corroborated by figures relating to the consumption of milk which is an important article of nutritive diet. The total production of milk in British India is estimated to be 443 million maunds. Of this quantity, 44.8 million are produced in the Eastern zone of Pakistan and 154.7 million in the Western zone. Assuming that this supply is consumed within the respective areas, the daily *per capita* consumption of milk comes to about 2 ounces in the Eastern and 17 ounces in the Western zone. The corresponding figures for Hindustan is 5 ounces. Information regarding milk supply in Pakistan formed district-wise is not available but there is no reason to suppose that the position will be substantially different.

20. Industries in Pakistan

In the matter of industries, Pakistan, to judge from the number of persons employed in factories, does not compare unfavourably with the rest of India. In this respect, however, the advantage is wholly with the Eastern zone where the inclusion of Calcutta and the surrounding area makes all the difference.

The jute, engineering, paper and pharmaceutical industries are the principal large scale industries which have been developed in Pakistan at the moment. The number of persons employed in factories in 1942-43, which takes into account the war time development, was 949 thousand in Pakistan and 1,439 thousand in the rest of India. The details are given below :

(Figures in thousands)

	Eastern zone	Western zone	Total
Textiles	326.6	350.1	23.5
Engineering	113.4	134.2	20.8
Minerals and Metals	29.2	40.3	11.1
Food, drink, etc.	27.3	35.6	8.3
Chemicals, dyes	20.2	25.0	4.8
Paper and printing	25.9	29.7	3.8
Wood, stone and glass	15.1	22.8	7.7
Gins and presses	8.9	8.9	...
Hides and skins	7.7	9.8	2.1
Miscellaneous	14.5	15.6	1.1
Government and seasonal factories	173.8	276.8	103.0
Total	762.6	948.8	186.2

While the percentage of population in the Eastern zone to the total population of British India is 24, the percentage of factory employment is 32. In the Western zone, however, which is by all tokens an agricultural tract, the percentage of factory employment is less than the percentage of population. If Pakistan is constituted district-wise, Calcutta and the surrounding industrial area will be excluded from it. As it is, even on a provincial basis, Pakistan is on balance a net importer of certain essential consumption goods like cotton piecegoods, sugar, etc. On the basis of the 1939-40 figures, the net imports of these two commodities from the rest of India amounted to 2.2 million maunds and 5.8 million maunds respectively.

21. Possibilities of Industrial Development

Although Pakistan at present relies for certain consumption goods on the rest of India, there is no reason to suppose that it would not be in a position to produce several of them

within its own territories provided political separation would not bar free exchange of raw materials as well as finished commodities between Pakistan and the rest of India. It is true that on the basis of existing information both the zones of Pakistan are deficient in iron and manganese and a number of other minerals which are considered essential for large scale industrial development. But it has great possibilities as regards the development of hydro-electric power. The hydro-electric survey of India shows the probable minimum continuous water power available in Pakistan to be 2,877 thousand kilowatts ; 1,084 thousand in Eastern zone and 1,793 thousand in the Western zone, while in Hindustan it would be only 1,343 thousand kilowatts. The Mandi hydro-electric works in the Punjab which is capable of generating more than 120,000 kilowatts of electric energy is considered sufficient for the whole of the Punjab. Besides electricity Pakistan has important coal fields in Bengal and oil deposits in Assam and the Punjab. Pakistan has also important agricultural raw materials such as cotton, jute and timber.

22. Large Free Trade Area Necessary for Full Development of Resources

The scope for industrial development in Pakistan, however, lies mainly in the direction of consumption goods industries using agricultural products. Cotton textiles, sugar, paper, food canning and similar industries are those which offer prospects of being developed. It must be remembered that the scope for further development of these industries and consequently of agriculture would depend very largely on the continuance of the whole of India as a free trade area. A large free trade area is essential for the development of the economic resources of both Pakistan and the rest of India. This is important from the point of view of obtaining a sufficient market for the goods produced by each state and also of ensuring a sufficient supply of the raw materials which it lacks. Free trade in this sense implies that if customs duties are levied in either state they should not exceed the level required for revenue purposes and that the protection required for development of industries in each state should be a matter for mutual consultation and planning.

23. Trade between Pakistan and Hindustan

Besides the maritime trade of Bengal and Sind, all the inter-provincial trade between Pakistan and Hindustan provinces, which is purely internal trade at present, will assume the form of international trade when India is divided. Information regarding the value of inter-provincial rail and river-borne trade is not available but data regarding the volume of trade in certain principal articles used to be published before the outbreak of the war. The balance of trade of Pakistan on inter-provincial account for 1939-40 is shown below :

(Thousand maunds)

	Eastern zone	Western zone
Coal and coke	—69,367	—56,314
Raw cotton	— 310	+ 2,610
Cotton piece-goods	— 918	— 1,304
Rice	+ 4,168	+ 2,537
Wheat	— 3,560	+11,299
Raw jute	— 2,614	+ 4
Iron and steel	— 4,207	— 2,336
Oilseeds	— 7,795	+ 2,136
Salt	+ 3,981	+ 1,250
Sugar	— 1,885	— 3,905

These figures to a large extent reflect the economy of the two zones of Pakistan considered separately. Both the zones have an excess of imports in respect of coal and coke, cotton piece-goods, iron and steel and sugar and an excess of exports in respect of rice and salt. In terms of value the trade of both zones of Pakistan with Hindustan would probably show an unfavourable balance. No information is available regarding trade between Pakistan and Hindustan if they were constituted district-wise.

24. Trade between Pakistan and Foreign Countries

From the point of view of the standard of living and of general economic development, maritime trade is far more important to the Eastern zone of Pakistan than to the Western zone and to the rest of India. The two important export crops, viz., tea and jute, which are responsible for the greater part of the favourable balance of trade which accrues to India belong

to the Eastern zone. In fact, the economy of Assam and Bengal is to a large extent dependent on the fortunes of these crops in so far as they determine the value of purchasing power in the hands of the masses. The intrinsic importance of these crops renders them valuable assets to the Eastern zone of Pakistan. The maritime trade of Pakistan and Hindustan on the basis of figures relating to the year 1939-40 is shown below :

(Rs. lakhs)

	Imports	Exports	Balance
Eastern zone	56,12	113,88	+57,76
Western zone	15,55	19,69	+ 4,14
Total	71,67	133,57	+61,90
Hindustan	93,62	80,00	—13,62

As a result of the separation of Pakistan, the rest of India, as the figures show, would have an excess of imports over exports in its dealings with foreign countries. If Pakistan were constituted district-wise, the Eastern zone would lose the port of Calcutta through which most of the foreign trade of Assam and Bengal is carried on at present and notwithstanding the possibility of developing Chittagong and other alternative ports, the position would become less favourable.

25. Standard of Living in Pakistan

The standard of living in Pakistan, constituted province-wise, does not therefore compare unfavourably with the rest of India as judged by the volume of food production, industrial employment and trade. The economies of the two zones, nevertheless, differ in certain important respects. The Eastern zone is industrial and has a large volume of foreign trade while the Western zone is agricultural and self-sufficient in food supply. Its foreign trade is comparatively small. The standard of living in the Eastern zone as in countries like Egypt, Brazil and Argentina is to a considerable extent determined by the fortunes of its commercial crops, viz., jute and tea. No separate data regarding the volume of food production are readily available for Pakistan formed on a district basis. But it is obvious that the loss of Calcutta to Pakistan which division district-wise will involve, will deprive it of the favourable position it occupies in respect of industrial employment and trade.

26. Defence Expenditure

Defence, which is the third specific topic we propose to discuss, however, appears to be the crux of the problem. So far, while dealing with the budgetary position and the standard of living, we have left out of account the demands which defence would make on the resources of Pakistan. It is now generally agreed that the cost of defence in future, even if some sort of a collective organization be assumed, will be much greater than it has been hitherto. Creation of an adequate naval and air force and proper mechanization of the army will entail large expenditure. It may be safely estimated that India's expenditure on defence which amounted to approximately Rs. 50 crores in 1939-40 would in the post-war period be in the neighbourhood of at least Rs. 100 crores. Establishment of new frontiers between Pakistan and Hindustan will make further addition to this expenditure if they are to be defended as frontiers of independent states. Although the brunt of expenditure on the navy would legitimately be the charge of Hindustan because of the extensive coastline which it would have to protect, the share of Pakistan in the total expenditure whatever the basis of calculation would not be inconsiderable. With a powerful Soviet Russia on the north-west and a new China on the east it is not reasonable to suppose, as is commonly done, that if Pakistan becomes an independent state it can substantially reduce the expenditure which is incurred at present. On the contrary the probability is that the expenditure will have to be increased. On a *pro rata* population basis the share of Pakistan in a defence expenditure of Rs. 100 crores would be Rs. 24 crores in the Eastern zone and Rs. 12 crores in the Western zone on a province-wise basis and Rs. 15 and Rs. 8 crores respectively, on the alternative basis. If the additional expenditure on protecting its frontiers with Hindustan is considered the amount would be still greater. According to our estimates of revenue and expenditure the surplus which would be available to the two zones for expenditure on defence is Rs. 10,45 lakhs and Rs. 3,44 lakhs if Pakistan is constituted province-wise and Rs. 6,54 lakhs and Rs. 2,37 lakhs if district-wise. If the railways, which showed a net loss in 1939-40, but which have become a source of profit since then, continue to show profit after the war, the revenue surpluses of Pakistan

might be expected to increase by a few crores. Still they will fall short of the requirements of defence by a large margin. Even if the two zones function as a single state the position will be unaffected.

27. Trend of Argument Favours Co-operation

Indirectly, the argument of the previous paragraphs brings out the importance of close co-operation between Pakistan and the rest of India on broad economic grounds. It is possible as we have seen that the two zones of Pakistan can maintain as independent states the existing level of provincial administration and the present standard of living. But their revenues would not be sufficient to secure the defence of Pakistan on an adequate basis. Nor would their resources admit by themselves of any large-scale industrial development in future on which the possibility of raising the standard of living as well as of increasing the taxable capacity of the country would largely depend. If collaboration between Pakistan and the rest of India in respect of defence and important economic matters could be definitely assured, these impediments would not operate to the same extent.

28. Concept of an Optimum Economic Unit

There are weighty and positive considerations which emphasize the necessity of an agreed policy between Pakistan and the rest of India in the sphere of economic development and defence. The trend of world opinion is now strongly in favour of joint organization in these spheres over large contiguous tracts even among states which are already independent. The two Americas are moving fast in this direction and some of the Middle East countries are holding important deliberations for the same purpose. Schemes of close inter-state co-operation are also proposed for continental Europe. In a recent article *The Economist* wrote : "It is only by a recognition and a realization of the unity of Europe's regions and probably, for economic matters, of Europe as a whole, that the continent's future can be rendered hopeful and the prospect of world peace be made bright." It would thus appear that the concept of an optimum unit for securing adequate defence and economic development is gradually being developed in terms of economic resources, area and population.

29. Extent of Inter-dependence between Provinces

In India the problem should not be as difficult as that with which independent states in other parts of the world are likely to be confronted, since here it is only a question of providing machinery for the continuation of co-operation between territories which are at present included within the jurisdiction of the same government. In the heat of political controversy the extent to which unity has been established between the different provinces of India and the degree of intercourse which has developed between them in economic matters is largely overlooked. For purposes of administration India has been treated as a single effective unit for over a hundred years. The whole country is now inter-connected by roads, railways, posts and telegraphs. There is a uniform system of currency and contract and a net-work of joint-stock banks with the Reserve Bank of India at its apex. Movement of men and materials between different parts of the country is unhampered. All these have naturally fostered inter-provincial migration of both labour and capital and given rise to a large volume of inter-provincial trade. Statistical information bearing on some of these aspects of inter-provincial relations, which is available, is interesting.

30. Composition of the Indian Army

Although it is generally known that every province has contributed its quota to the various all-India services like the I.C.S., the I.M.S., posts and telegraphs, railways, etc., information regarding the composition of these services by place of origin is not readily available. But in respect of the army, which numerically is one of the most important services, some data published in February, 1944, show that the contribution of each of the provinces to the Indian army in round figures, was as follows :

Assam	10,000	N.-W. Frontier	70,000
Bengal	100,000	Orissa	3,000
Bihar	40,000	Punjab	600,000
Bombay	100,000	Sind	5,000
C.P. & Berar	25,000	U.P.	200,000
Madras	260,000	Indian States	250,000
Total	1,663,000		

The Punjab contributes 36 per cent. of the total army of India and a large proportion of the income of the province consists of the salaries and pensions of its soldiers derived from revenues collected on an all India basis. Data regarding other public services would equally show the inter-provincial character of the higher services not merely in their composition but also in the allotment of officers for service in the different provinces.

31. Distribution of Joint-Stock Banks

As an illustration of the extent to which the economic interests of the different provinces have been integrated the distribution of joint-stock banks is perhaps more significant. Distribution of the branches, head offices, etc., of a few important banks, in 1941 is shown below :

	Allahabad Bank	Calcutta Commercial	Central Bank	Imperial Bank	Punjab National
Assam	1	15	—	4	—
Bengal	3	32	7	30	2
Bihar	1	19	9	19	—
Bombay	3	—	16	39	1
C.P. & Berar	5	—	—	20	—
Madras	—	1	10	99	—
N.W.F.P.	—	1	—	3	4
Orissa	—	—	—	4	—
Punjab	8	—	41	68	39
Sind	—	—	4	7	3
U.P.	43	3	26	55	12
Others	3	—	1	4	4
Total British India	67	71	114	352	65

32. Inter-Provincial Migration

Figures of migration from one province to another are not perhaps large but taking into account the predominantly agricultural bias of the population and the hold of custom and tradition on an illiterate people the available statistics are striking enough. Generally, these movements of population are

confined to neighbouring provinces but instances of long distance migration are not wanting. The extent of inter-provincial migration according to the 1931 census is represented in the table below :

(Figures in thousands)

Province of birth	Assam	Bengal	Bihar and Orissa	Bombay	C.P. and Berar	N.-W. F. P.	Punjab	U.P.	Total
Assam	—	63	2	—	1	—	—	1	67
Baluchistan	—	—	—	35	1	—	4	—	40
Bengal	5,75	—	1,58	6	7	1	5	31	7,83
Bihar and Orissa	4,72	11,39	—	2	52	—	1	70	17,36
Bombay	7	8	7	—	1,05	1	9	8	1,45
C.P. & Berar	82	46	89	55	—	—	2	15	2,89
Madras	57	42	41	60	13	1	2	3	2,19
N.W.F.P.	1	2	1	12	1	—	53	4	74
Punjab	6	25	15	91	16	85	—	98	3,36
U.P.	68	3,48	1,27	1,37	1,19	11	2,32	—	10,42

The largest number of persons to leave their province of birth for employment outside is from Bihar and Orissa, followed by Bengal, Punjab, C.P. and Berar, Madras and Bombay in the order of importance. There is also a considerable volume of cross migration from Bihar to Bengal, from Bombay to the Punjab, etc., and *vice versa*. Inter-provincial movement of population are generally determined by two factors, *viz.*, pressure of population and industrial development, the direction of movement being from the heavily populated or backward areas towards centres of industry and trade. Assam tea gardens, for instance, attract people from Bihar and Orissa, Chota-Nagpur, parts of Bengal, United Provinces and the northern districts of Madras. The bulk of the jute mill labour comes from the west of Bihar and the east of the United Provinces, together covering a tract lying from 300 to 500 miles away from

Calcutta. In Bihar, sample inquiries made at three industrial centres in 1938, showed the following interesting results :

Families born in	Families working at		
	Jamshedpur	Jharia	Dehri-on-Sone
Bihar	280	865	192
Bengal	107	22	2
Orissa	121	14	—
U.P.	97	35	10
C.P. & Berar	149	73	9
Punjab	79	8	20
Madras	98	2	—
N.-W.F.P.	10	—	10
Bombay	7	—	—
Assam	5	—	—
Indian States	47	9	7
Nepal	40	2	4
Total families surveyed	1,040	1,030	254

33. Inter-Provincial Trade

The most important sphere, however, in which the closeness of inter-dependence between the different provinces of India is revealed is inter-provincial trade. Unfortunately, statistical information is available only for the rail and river borne trade and that only for a few specific commodities. For the provinces which are likely to be included in Pakistan, either wholly or partially, the information for 1939-40 is summarized in the following trade :

(Thousand maunds)

	Eastern zone			Western zone		
	Imports	Exports	Balance	Imports	Exports	Balance
Coal and Coke	220,443	151,076	—69,367	57,934	1,620	—56,314
Raw cotton	638	328	— 310	6,325	8,935	+ 2,610
Cotton piecegoods	2,786	1,868	— 918	2,180	876	— 1,304
Rice	11,834	16,002	+ 4,168	4,484	7,021	+ 2,537
Wheat	3,767	207	— 3,560	8,735	20,034	+11,299
Raw jute	31,726*	29,112	— 2,614	2	6	+ 4
Iron & Steel	15,638	11,431	— 4,207	4,393	2,057	— 2,336
Oilseeds	9,059	1,264	— 7,795	3,119	5,255	+ 2,136
Salt	7,222	11,203	+ 3,981	939	2,189	+ 1,250
Sugar	3,071	1,186	— 1,885	5,091	1,186	— 3,905

* This figure represents imports from upcountry into the Calcutta port for export to foreign countries.

The volume of rail and river borne trade which the provinces in the Eastern and Western zones of Pakistan carry on with the rest of India in these selected commodities is very large. If figures for the total volume of inter-provincial trade were available it would be found to be larger still. Both zones have an excess of imports in respect of coal and coke, cotton piece-goods, iron and steel and sugar and an excess of exports in respect of rice and salt. Although Bengal is the principal producer of jute, excess of raw jute imports from other provinces probably means that it is meant for export to foreign countries.

34. Geographical Unity

How the economies of the various provinces are dovetailed into one another is revealed by the specialization of production to which geographical and administrative inter-dependence has contributed. Wheat from the Punjab is consumed in the U.P., Sind and Bombay; the cotton mills of Bombay and the U.P. use large quantities of cotton grown in the Punjab and Sind and supply cotton goods to every part of India; coal is exported from Bihar and Bengal to the remaining provinces; the steel supplies of the country are derived largely from Bihar and sugar is dispatched to all parts of India from the U.P. The essential factor which has facilitated the development of inter-provincial relations and which cannot be ignored even if the country is divided into separate political entities is the geographical unity of India cemented during the past hundred years by a unified system of administration and communications.

35. India as a Unit for Economic Development

India satisfies the requirements of an optimum unit for economic development in terms of area, population and resources more than any other single country in the world except the United States of America and Soviet Russia. In spite of her population of 389 million, the density of population in India taken as a whole is smaller than in most countries of the world. She has enough space of her own and the variety of climates and soils makes it possible for her to produce most agricultural commodities in general use. The mineral resources of the country, though in certain respects deficient, are on the whole adequate to make her a "powerful and reasonably

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self-sufficient industrial nation." Her population again constitutes a sufficiently large potential market. These advantages will be lost if India is divided into separate states without a common economic policy. Differences of climate, soil and mineral resources which in a large free trade territorial unit contribute to its strength would constitute a serious handicap to the economic life of the smaller units into which it might be broken up. Division of India would weaken both Pakistan and Hindustan but the former would suffer more than the latter. In the first place, the two zones of Pakistan would be separated by more than 700 miles from each other without any land route connecting them. It would not be easy under such circumstances to adopt a co-ordinated policy of economic development for both. Secondly, in respect of mineral resources, lacking coal and iron and ferro-alloys, the position of Pakistan in respect of both zones would be substantially weaker and she would lack the necessary mineral base for large-scale industrial development which is so essential for her future progress.

36. Common Policy for Defence

Close co-operation between Pakistan and the rest of India in important economic matters also implies co-operation in defence. In fact, defence, in modern times, is largely a function of industrial development. By promoting development of industries on a large scale, a policy of co-operation will not merely ensure that the necessary materials and mechanical equipment are provided but also help to raise the revenue required to meet a higher level of defence expenditure. A common policy of defence will also mean better co-ordination of strategic frontiers.

37. Findings of Economic Enquiry

The broad conclusions to which this discussion leads may now be stated :

- (a) *On the pre-war basis of provincial and central expenditure (excluding defence) the two zones of Pakistan appear to be workable from a purely budgetary point of view as separate sovereign states whether they are formed province-wise or district-wise.*

(b) On the pre-war basis of food production, industrial employment and trade, the standard of living in Pakistan formed province-wise compares favourably with the rest of India. The position of Pakistan constituted on a district basis is perhaps equally favourable in respect of food production but in other respects it seems to be less favourable.

(c) The possibilities of further economic development in Pakistan formed on either basis will depend on the provision of facilities for free movement of trade within India as a whole and for close co-operation in economic matters between Pakistan and the rest of India.

(d) Similarly, the ability of Pakistan to shoulder the responsibility of defence on an adequate scale, being largely a matter of developing its economic and financial resources to a suitable extent, will also depend on the degree to which co-operation between Pakistan and the rest of India can be effectively organized.

38. General Conclusion

From the point of view of defence and of economic development, with which defence is closely bound up under modern conditions, it is therefore inevitable, if the division of India into separate states is found necessary for political reasons, that Pakistan and the rest of India should continue to act in close co-operation in these essential matters. What method of co-operation will in the long run be found feasible will necessarily depend on political considerations. But it is clear that unless some effective and continuous form of co-operation in matters relating to defence and economic development is accepted as an indispensable pre-requisite to any scheme of separation and as an organic part of it, the division of India into separate sovereignties would spell stagnation and probable disaster.

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